UNITED
NATIONS

EP

Governing Council
of the United Nations
Environment Programme

Distr.
GENERAL

UNEP/HLC/2/INF/4
17 October 1997

ORIGINAL: ENGLISH

HIGH-LEVEL COMMITTEE OF
MINISTERS AND OFFICIALS
Second meeting
Nairobi, 17-18 November 1997
Item 5 of the provisional agenda *

STABLE, ADEQUATE AND PREDICTABLE FUNDING FOR THE UNITED NATIONS ENVIRONMENT PROGRAMME

Note by the Executive Director

INTRODUCTION

1. The high expectations raised by the United Nations Conference on Environment and Development for new and additional resources to implement the Environment Fund programme have not been met. Instead of increased revenues, the United Nations Environment Programme (UNEP) is seeing its resources shrink and witnessing the apparent inability of Governments to increase or maintain the levels of their voluntary contributions.

2. Direct financial support to UNEP from the United Nations regular budget has been reduced substantially, from $11 million in the biennium 1994-1995 to $7.4 million in 1996-1997, as a result of the establishment of the United Nations Office at Nairobi. Moreover, in relation to the Environment Fund, the share of regular budget contributions declined from 26.7 per cent in 1973 to 8 per cent in 1996, while total contributions to the Environment Fund dropped from $63.7 million in 1992 to $45.5 million in 1996.

3. Although some countries have recently begun contributing to the Environment Fund, as evidenced at the pledging session held at the nineteenth session of the UNEP Governing Council, and some have increased their contributions, a few major donors have substantially reduced theirs.

* UNEP/HLC/2/1.

Na.97-2568 201097 211097

/...

For reasons of economy, this document is printed in a limited number. Delegates are kindly requested to bring their copies to meetings and not to request additional copies.

All in all, Governments did not meet their collective commitment to finance the significantly reduced programme budget for 1996-1997 approved by the Governing Council at its eighteenth session.

4. In addition, from the beginning of 1997, UNEP was faced with a continuous threat of serious cash-flow shortages. The instruction of the Governing Council that the cash carry-over should be kept to a minimum, together with the tendency for voluntary contributions only to be pledged or paid well after the start of the year, had brought the organization to the edge of bankruptcy. In order to keep the machinery intact, programme delivery had to be delayed.

5. At its nineteenth session, the Governing Council, in January and February 1997 had no choice but to scale down the 1996-1997 programme budget from $90 million to $63.5 million and the management and administrative support costs budget from $41.9 million to $33.9 million. It also noted that, at the request of the Governing Council, the Executive Director had eliminated the practice of cash carry-overs from one biennium to another and that the financial reserve was now insufficient to meet the cash needs of the organization in the early months of the year. It authorized the Executive Director to maintain a sufficient cash carry-over to retain the necessary working capital to initiate the implementation of the Fund programme, and urged Governments to pledge and pay their pledges early. 1/

6. Hence, with respect to the biennium 1996-1997, the Governing Council originally agreed that UNEP would receive and spend $136.9 million and that the organization could afford to work without a cash carry-over. During the biennium, however, the reality was that total contributions dropped by about 30 per cent, and many payments were late, or pledged late, leading to serious cash-flow problems.

7. It is noteworthy that, in the same period, earmarked contributions continued to increase. In 1996, trust fund contributions and counterpart contributions accounted for more than half of the income of UNEP.

8. In the light of its growing financial uncertainties and constraints, UNEP decided to develop a 1998-1999 work programme budget for $75 million (plus programmes for an additional $15 million and $30 million, if funds become available), while leaving the support budget at the level of $27.5 million.

9. In its decision 19/22, the Governing Council expressed full support for the proposed 1998-1999 work programme and its related budget of $75 million, as well as the proposed 1998-1999 support cost budget of $27.5 million and programme reserve budget of $5 million. It agreed that the Executive Director could also plan for an additional $15 million per year ($30 million for the biennium).

10. Governments have consistently demanded and supported a strengthened and focused UNEP in keeping with the evolving circumstances and needs. Agenda 21 mandated that UNEP should strengthen its catalytic role in a widening sphere of activities aimed at protecting and improving the environment. The

---

1/ See Governing Council decision 19/22.

Governing Council, the international community and non-governmental organizations all support a strengthened UNEP that would be fully capable of delivering its new, integrated and results-oriented programme. The efforts undertaken by UNEP to focus its work and make it more effective has received commendation from the United Nations Office of Administration.

11. The Governing Council's recent decisions 19/1 and 19/32 on the role, functions and governance structure of UNEP will help ensure that the organization will have its proper niche in the streamlined and reorganized United Nations system that is expected to emerge as a result of the ongoing United Nations reform process, which the General Assembly will review later this year and in 1998.

12. Despite this full-fledged support for what UNEP is, plans to do and requires financially in 1997 and a repeated call for the further strengthening of UNEP by both the Governing Council and the General Assembly at its special session, the secretariat is again preparing for a lower level of income in 1998-1999. Expectations with respect to voluntary contributions and the experience of last biennium warrant such an approach.

13. It is clear that something is wrong or missing in the link between the approval of a work programme and its budget and the consequent readiness of the Governments that were parties to this approval to make their financial contributions to the Environment Fund and to do so on time.

14. At its nineteenth session, the Governing Council acknowledged that something had to be done and, in its decision 19/23, requested the Executive Director to explore, in consultation with Governments, ways and means to secure stable, adequate and predictable funding for UNEP.

15. Chapter I of the present report analyses the sources and trends of the funding of UNEP and chapter II highlights UNEP resource mobilization work.

I. SOURCES OF FINANCE

A. United Nations regular budget

16. General Assembly resolution 2997 (XXVII), which brought UNEP into existence, lays down that "the costs of servicing the Governing Council and providing the small secretariat ... shall be borne by the regular budget of the United Nations and that operational programme costs, programme support and administrative costs of the Environment Fund ... shall be borne by the Fund". The United Nations regular budget was expected to provide core support to UNEP, encompassing policy-making, executive direction and management of the programme of work. No clear-cut decision was made, however, on how the "small secretariat" was to be defined. In effect, the small secretariat evolved in response to programme development, which itself evolved in response to countries' needs and Governments' policy direction.

Table 8 2/ shows the annual contributions from the United Nations regular budget to UNEP during the period 1973-1996, and table 9 shows the trend of the declining percentages of regular-budget financing vis-à-vis financing from the Environment Fund over the same period. The proportion of regular budget to Environment Fund financing has fallen to a meagre 8 per cent in 1996 from 26.7 per cent in 1973.

17. The UNEP secretariat has remained small, in line with General Assembly resolution 2997 (XXVII), and in keeping with its catalytic and coordinating role. For several individual programme areas that could be the focus of entire organizations elsewhere, the UNEP secretariat has just one senior officer responsible. Yet, the range and depth of environmental activities that UNEP has to pursue have increased as a result of the expressed wishes of Governments and in response to countries' needs. Similarly, since the United Nations Conference on Environment and Development, Governments, non-governmental organizations and individuals have come to expect steadily more in terms of the delivery by UNEP of programme services and products. The challenges of policy development, executive direction and programme management have become more complex and demanding.

18. Against this background, the United Nations regular budget has been financing only a small fraction of the UNEP secretariat costs, including the support provided to UNEP by the United Nations Office at Nairobi. It no longer meets the costs of the essential catalytic and coordinating programme functions of UNEP. The number of regular-budget-financed posts in UNEP has fallen to 40 (21 Professionals and 19 General Service) in 1997. In the biennium 1998-1999, the number of posts to be financed from the regular budget is expected to be 36 (21 Professionals and 15 General Service).

19. In view of the unique catalytic and coordinating role of UNEP in environmental policy and programming vis-à-vis the rest of the United Nations system, the regular budget should, in principle, cover a sizeable part of the costs related to the exercise by UNEP of its oversight and service functions. Regular budget funding realities have, however, evolved in such a manner that the Environment Fund has had to bear the brunt of financing the small UNEP secretariat. This situation is not likely to change in the near future.

20. UNEP is mainly engaged in activities of global and regional environmental significance, and providing services to Governments and the United Nations system. It does not characteristically have country-by-country projects, involving technical cooperation or investments. Therefore, UNEP staffing and overhead costs, as a proportion of its operational costs, cannot be comparable to those for an executing agency of the United Nations with a sizeable portfolio of field projects.

2/ Editor's note: The tables referred to in this document are to be found as attachments to the report of the Executive Director on stable, adequate and predictable financing of the United Nations Environment Programme (UNEP/HLC/2/3).

B. Environment Fund

21. Voluntary contributions from Governments to the Environment Fund have been the main source of funding for UNEP. General Assembly resolution 2997 (XXVII) established the Environment Fund "in order to provide additional for financing for environmental programmes". UNEP uses the Fund flexibly to deliver the approved work programmes and achieve institutional objectives. Table 10 shows the total annual contributions to the Environment Fund during the period 1973-1996. The sum total of these contributions has declined steadily since 1993. For example, contributions dropped from $58 million in 1995 to $47.7 million in 1996. The sources of this decline are shown in table 11 ("Actual contributions to the Environment Fund: 1990-1997"), which also indicates the pledges received from countries for 1997-1999. Table 13, ("Evolution of contributions to the Environment Fund: 20 major donors: 1990-1996") illustrates the trend of contributions to the Environment Fund of the 20 largest donor countries. Table 14 illustrates the pattern of relative contributions to the Environment Fund from 20 major donors in 1995 and 1996.

22. The trend in the number of countries contributing to the Environment Fund over the period 1973-1997 is reflected in table 15. Despite the fact that the number of United Nations member countries has significantly increased over the last 15 years, the number of contributors to the Environment Fund has not. In 1980, 90 countries contributed to the Environment Fund; so far in 1997, only 71 countries have done so. Over 90 per cent of the total contributions to the Fund comes from only 15 countries. The decision of even a few of the major contributing countries to substantially reduce their contributions can have, and has had, a crippling effect on the implementation of the approved work programme, the planning of UNEP work, and its institutional viability. Thus, the programme budget for 1996-1997 has had to be reduced by over 30 per cent in the light of unforeseen reductions in voluntary contributions. The regional distribution of government contributions to the Environment Fund and yearly changes in it over the period 1990-1997 are shown in table 16. Except for the Africa and Asia and Pacific regions, the number of contributing countries has been falling or remaining unchanged in all regions since 1995. In Europe, 28 countries contributed to the Environment Fund in 1991 and 1992, whereas in 1997 only 22 countries did so. In Latin America and the Caribbean 15 countries contributed in 1995, whereas only six did so in 1997.

23. The overall levels of the UNEP programme budget are established by its Governing Council. By agreeing on a certain programme-budget level, Governments not only indicate that they consider that level to be a realistic revenue projection for the organization for the relevant biennium, but that they also commit themselves collectively to ensure that their voluntary contributions would meet the target set for the programme budget.

24. Governments make payments into the Environment Fund at their convenience. UNEP cannot commit, or spend, funds that have not been paid. The time-lags between a pledge and actual payment can be very significant. The organization needs to have measures in place which could cover at any time the risk of a cash shortfall, such as the one it is currently facing. The authorization given by the Governing Council, in its decision 18/41 B, "to increase gradually the level of the financial reserve to 20 million

dollars by 1999" should assist the Executive Director in preventing or overcoming a serious cash-flow problem. In the absence of higher levels of contributions, however, such an increase in financial reserve can only be implemented by the programme further. Assurance of adequate levels funding and greater predictability in the timing and levels of funding remain therefore essential prerequisites for effective programming and delivery of UNEP services and products to countries, institutions and communities.

25. There is a real risk that with growing responsibilities of Governments to pay assessed or quasi-assessed contributions for the implementation of new and emerging environmental agreements and to multilateral development bodies, their voluntary contributions to the Environment Fund would be considered as of secondary or lower priority. This tendency may be reflected to some extent in the dramatic growth in the number of and contributions to trust funds in UNEP, and in the relative decline of contributions to the Environment Fund. This is illustrated in table 17 and 18, on yearly evolution of UNEP financing by source of funding: 1973-1996, and evolution of UNEP financing by source of funding: 1973-1997 (percentages), respectively.

26. While unearmarked voluntary contributions have played a central role in financing the programme budget, their main shortcomings have been their unpredictability, shortfalls and late delivery. Donor countries are usually unable to make advances or pledges covering more than one year, owing to national legislative considerations. In addition, changes in national policies or priorities can cause discontinuance or curtailment of funding of previously approved programmes. Furthermore, contributions made to UNEP late in the year cannot always be disbursed in the same year. As a result, the full programme for the year may not be implemented, and the attendant cash carry-overs may give the wrong impression that UNEP is unable to disburse funds efficiently, or to implement programme activities on schedule.

C. Trust funds

27. UNEP administers three types of trust funds:

(a) General purpose trust funds, which are established to support activities carried out by convention secretariats and supplementary programme activities;

(b) Technical cooperation trust funds (General), under which technical assistance is provided to developing countries, particularly for capacity-building; and

(c) Technical cooperation trust funds (Personnel), which finance Junior Professional Officers (JPOs) or other officers assigned to UNEP by individual donor countries.

28. Trust-fund contributions are earmarked for specific purposes by donors. They finance programmes relating to the implementation of, for example, environmental conventions, protocols and agreements and activities supplementary to the approved Environment Fund work programme. They often have a different governing structure than that of the Environment Fund. Trust Funds can be bilateral or multilateral. Trust funds resulting from

international agreements are generally multilateral funds with separate secretariats. Each such trust fund is identified as a distinct source of funding for the agreed corresponding activities. Their resources are managed and accounted for separately.

29. Table 19 illustrates the growth in the number of trust funds. Table 20 shows the trends in the contributions to trust funds over the period 1973-1996, excluding the Multilateral Fund for the Implementation of the Montreal Protocol on Substances that Deplete the Ozone Layer. Since UNEP serves only as Treasurer to the Multilateral Fund, contributions to it are excluded in the discussion below, unless otherwise indicated.

30. During its first five years, UNEP administered only one trust fund in 1996, it administered 68 separate trust funds. The total contribution to Trust Funds increased from $300,000 in 1978 to $40 million in 1996. The ratio of funds received by UNEP through Trust Funds to those received by it through the environment fund increased exponentially from 1.1 per cent in 1978 to 16.2 per cent in 1987 and to 83.77 per cent in 1996, a pattern illustrated in table 21.

31. Four main factors are at work behind the significant increase in the number of and contributions to trust funds:

(a) A perceptible trend among donors to earmark their contribution towards multilateral environmental activities, and give prior claim to those contributions which are of the assessed kind;

(b) The growing number of conventions and treaty secretariats administered by UNEP;

(c) The growing number of staff seconded to the UNEP secretariat and paid for under bilaterally established technical cooperation trust funds for personnel; and

(d) The increased number of technical cooperation activities implemented by UNEP which are financed under trust funds.

32. Trust funds have been used also to supplement the resources available to implement those programme activities which are of particular interest to a Government or a group of Governments. This has, inter alia, raised questions concerning the influence that such contributions might bring to bear on programme balance and priorities, which are set by the Governing Council, and on the modalities of their implementation.

D. Counterpart contributions

36. Counterpart contributions are made in cash or in kind by Governments, United Nations agencies and organizations to meet the costs of activities, services and facilities for individual projects. They are earmarked contributions that are meant to represent additional resources over and above the contributions made to the Environment Fund and conventions, protocols, and trust funds. Since funds available for counterpart contributions from Governments are not specifically reserved for UNEP in national budgets, specific competitive fund-raising for such resources is necessary. In the

face of a shortfall in resources available to implement the programme, UNEP has actively sought to mobilize counterpart contributions for specific programme activities. To date it has succeeded in raising about $8 million through this avenue. The trends in total counterpart contributions, and as a percentage in relation to the Environment Fund resources during 1973-1996 are reflected in table 22 and 23, respectively. Counterpart contributions increased from $1.5 million in 1982 to $10.17 million in 1996. These cover both project-related and other activities. As a percentage of the resources of the Environment Fund they increased from 4.9 per cent in 1982 to 22 per cent in 1996.

37. While financial resources to complement general contributions to the Environment Fund are very welcome, such resources should not undermine the balanced implementation of the UNEP work programme. Further, they should not cause undue pressures on programmatic and organizational coherence and integrity of UNEP.

E. Conclusion

38. Summary table 24, on yearly contributions to UNEP by source of funding, depicts the trends over the period 1973-1996 in absolute and relative contributions to funding UNEP under the Environment Fund, trust funds, counterpart contributions and the United Nations regular budget. The predominant picture that emerges is as follows: the regular budget has lowered its profile in funding UNEP, amounting to 8 per cent in relation to the Environment Fund in 1996; its relative magnitude was 26.7 per cent in 1973. The trust funds have exponentially raised their profile in relation to the Environment Fund and their total level is now 83.8 per cent of that of the Environment Fund money. The level of counterpart contributions, which played no role at all in UNEP financing until 1981, totalled over 24 per cent of the level of contributions to the Environment Fund in 1996. Earmarked contributions (i.e., trust fund and counterpart contributions combined) totalled about 29 per cent more than the contributions made to the Environment Fund in 1996.

II. RESOURCE MOBILIZATION

44. Against the background of falling financial resources and growing demands for enhanced programme delivery, UNEP was called upon to establish a mechanism to better coordinate and direct its fund-raising activities. There were also suggestions to develop specific fund-raising plans:

(a) To expand the donor base and at the same time solicit increased support from current donors, particularly by way of earmarked contributions;

(b) To expand counterpart funding from intergovernmental organizations, regional development banks, bilateral agencies, non-governmental organizations as well as from the private sector, and from supplementary income-generating activities; and

(c) To build stronger partnerships in key programme areas with other agencies and bodies in the United Nations system, including the organization of joint fund-raising activities.

45. Correspondingly, UNEP established a Resource Mobilization Unit and prepared and distributed to Governments the Resource Mobilization Strategy for 1996-1997. The Strategy included the following principal elements:

(a) Replenishing the Environment Fund, as first priority, targeting Governments and major partners;

(b) Developing and mobilizing in-house capacity for resource mobilization; and

(c) Enhancing collaboration with the private sector.

46. UNEP is implementing the agreed resource mobilization strategy. Some countries have provided assurances that they would contribute for the first time to Environment Fund. However, while earmarked contributions have been raised on a small scale for a few programme activities, additional contributions to the Environment Fund, or other sources of financing the work programme have not yet materialized even at this late stage in the biennium 1996-1997. UNEP's efforts to raise awareness of its financing problem, to provide relevant information on the programme, to develop proposals that simultaneously meet programme and donor countries' priorities, and to solicit voluntary and other contributions to finance specific project proposals, are continuing. Based on an assessment of their priorities, UNEP has submitted a range of project proposals to several donor countries for earmarked contributions. Actual mobilization of funding so far from this effort has been modest. All in all, it is clear that new approaches and a new system for the funding of UNEP has to be developed and agreed upon, if the present problems and trends are to be overcome and reversed.